Third Quarter Letter 2014

PERSPECTIVE

The economy has continued to improve so far in 2014. After a weather-induced first quarter contraction, it grew at a brisk annualized rate of 4% in the second quarter. Nonetheless this recovery remains the slowest since the Second World War. With the gradually improving economy, the Federal Reserve has begun winding down the historic easy-money policies it took in response to the financial crisis.

The Federal Reserve Board indicated after its September meeting that the bond-buying program known as quantitative easing will end after October, ending a six-year experiment in monetary policy that has left the Fed holding more than $4 trillion of Treasury and mortgage bonds. Any action by the Fed to start raising interest rates will depend upon a continuation of the recovery. Economic growth has consistently underperformed the central bank's expectations, which makes it difficult to predict the Fed's future actions.

At Delta, our goal is to find companies with sustainable, competitive business models with strong balance sheets and managements that consistently make wise use of shareholder capital.

Overseas risks provide further reasons for policymakers to tread carefully. Europe seems to flirt continually with recession; Japan has a growing trade deficit; instability appears the norm in the Middle East and Ukraine; and China's economy has slowed on excess capacity. The U.S. is better off than the rest of the world because of increasing domestic oil production and resulting job growth, cheaper energy and a relatively deleveraged household sector. Less economic progress in Japan and Europe versus the U.S. explains why investors believe that the Fed will raise interest rates next year, in contrast with the European Central Bank and the Bank of Japan. Investors believe these institutions will continue pushing their interest rates down in a bid to spur their struggling economies.

Policymakers globally are still giving substantial support to financial markets. Five years into the economic recovery, investors have come to rely on the Federal Reserve and other central banks to keep financial conditions stable. The downside of an activist Fed and other central banks is that their actions over time can distort markets, creating the extended stock and bond valuations investors are dealing with today. Such policies artificially constrain interest rates, making bond returns unappetizing, and shift money toward stocks and other higher risk assets.

How should investors navigate markets that are susceptible to rapidly changing and divergent economic indicators, political instability and globally fluctuating and conflicting monetary policies? At Delta, we pursue a disciplined approach that focuses on individual company valuations over a long-term time horizon. We do not attempt to time the market or speculate on future changes in Fed policy or how they may interpret changing economic indicators. We aim to find companies with sustainable competitive business models, strong balance sheets and managements that consistently make wise use of shareholder capital. Our active management process consisting of a value investment discipline, long-term focus and individual security selection is how we navigate challenging economic environments on behalf of our clients in meeting their financial goals.

September 30, 2014

COMPANY COMMENTS

Comments follow regarding common stocks of interest to clients with stock portfolios managed by Delta Asset Management. This commentary is not a recommendation to purchase or sell but a summary of Delta's review during the quarter.

McGraw Hill Financial { MHFI }

McGraw Hill Financial is a global leader in credit ratings, benchmarks and analytics that provide essential information and data content to the global commercial, capital and commodity markets. Its brands include Standard & Poor's, Capital IQ, Dow Jones Indices, Standard & Poor's Indices, Platts and J.D. Power and Associates and McGraw Hill Construction. Through the years, these franchises have produced valued content with relatively high margins, low capital requirements and strong cash flow.

In May 2014, the company completed its first year as McGraw Hill Financial, which marked the conclusion of its reorganization plan. The centerpiece of this plan was the sale of McGraw-Hill Education. McGraw Hill used the proceeds from this sale to reduce debt and repurchase shares. Along with a new name, McGraw Hill Financial, the company is now singularly focused on business-to-business financial services.

With offices in over 20 countries and 1,400 analysts, Standard and Poor's (S&P) is one of the three dominant firms that rate securities and assess credit risk (the other two are Moody's and Fitch). Barriers to entry – such as market acceptance and reputation, scale and global distribution – are high. Credit ratings are used by investors, issuers, investment banks and governments. Issuers of bonds rely on credit ratings as an independent verification of their credit worthiness. Credit ratings provide the marketplace with a benchmark to help gauge borrowers' credit worthiness. Most bonds that are issued must have at least one rating from a respected Credit Rating Agency (CRA) for the issuance to be successful.

CRAs continue to be subject to criticism and lawsuits as a result of missteps made during the credit crisis. The Dodd-Frank Act includes a provision that makes it somewhat easier to sue CRAs for securities fraud. The Department of Justice has filed a civil lawsuit against McGraw Hill seeking $5 billion in damages. The company has so far rejected a settlement offer and is preparing to fight the lawsuit in court. We believe the company will accept a reasonable settlement offer from the DOJ. Our valuation assumes a $1.5 billion charge against earnings for settlement. Though McGraw Hill continues to be successful in the courtroom, several other cases remain open, and the legal and regulatory uncertainty continues to be a challenge.

The Dodd-Frank Act requires the SEC to begin a study on alternative business models for the credit rating business. The two prevalent models are the current standard where the security issuer pays for the rating and the alternative where the user pays. Though somewhat counterintuitive, the current "issuer pays" model is more transparent and accessible to the marketplace as a whole than the alternative model. The global regulatory framework has become more difficult with greater scrutiny and oversight. Although we anticipate a reduction in margins from additional regulations and constraints, we believe the major CRAs, such as Standard & Poor's, have the global presence, resources and reputation to remain highly profitable with their model intact.

Separate from Standard & Poor's ratings, the company's Standard & Poor's Indices and Capital IQ are large and highly profitable global businesses with good growth prospects. Standard & Poor's Indices provide investors with some of the most famous market benchmarks including the Dow Jones Industrial Average and S&P 500. The S&P 500 is the world's most followed stock market index with $7.1 trillion in benchmarked assets and $1.9 trillion directly indexed to it. Growing investor demand for index-based passive investments has boosted the share of exchange traded funds and index mutual funds, increasing the fees paid to McGraw Hill for the use of its benchmarks.

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Capital IQ is a leading global provider of financial research and analytical tools for capital market participants, such as asset managers, investment banks, brokers and analysts. Capital IQ continues to gain market share due to product enhancements in its data and analytical offerings.

Additional McGraw Hill data and information brands include Platts, J.D. Power and Associates and McGraw Hill Construction. These subsidiaries provide energy, marketing and construction data, and research and information to a broad range of individual and institutional clients. These subscriptions-based, recurring revenue models fit well with McGraw Hill's business of providing value added data and reputational insights.

We assume low, single-digit revenue growth with operating margins averaging in the upper 20% range over the long-term. Based on these assumptions, our valuation model indicates an approximate 6.5% annualized long-term rate of return given the current stock price.

L'ORÉAL *L'Oreal { LRLCY }*

L'Oreal is a leading manufacturer in the world cosmetics market with a presence in 130 countries on five continents. The company has excellent market share positions in most regions of the globe. The scale and breadth of L'Oreal's brand portfolio and geographic reach give it sustainable competitive advantages. The company's success over many years is attributable to the development of premium products, global branding and a number of product innovations geared to targeted regions.

Much of L'Oreal's recent growth has been organic. A key driver of growth has been the impressive amount spent on advertising and promotion (30% of sales versus 25% on average for the sector). By marshalling its resources on a limited number of brands, the company can launch new products using the identity of an established brand. The sharp increase in advertising and promotional costs over the past few years and their maintenance at a high level has been offset by a considerable reduction in purchasing and administrative costs.

A healthy investment in research and development has also contributed to growth. The company invests over 3% of sales on R&D. With 23 research centers around the world, the company's research is focused on universalizing beauty. Universalizing beauty does not mean making it uniform but adapting it to local tastes and culture and making it accessible to all. As a result of its robust R&D budget, L'Oreal launches an average of 200 to 300 new products a year, representing 15% of sales.

L'Oreal's sustainable, competitive advantage is the company's ability to cover all price points with a range of brands.

The development of emerging economies across the world has presented L'Oreal with renewed opportunities for growth. European and North American markets are mature with established competitors and high penetration. In contrast, the company is seeing growth in newer markets where the middle class is emerging and eager for high quality cosmetic products. L'Oreal is targeting to more than double its customer base from 1.2 billion to 2.5 billion over the next 10 to 15 years by focusing on product categories that are popular in emerging markets.

China remains a major area of growth in emerging markets and now represents 7% of sales (L'Oreal's third largest market globally). L'Oreal is the number two cosmetics player in China, with leading positions in skin care, make-up and colorings. It only recently launched its hair care products there, which comprise 25% of the Chinese market. With these new category introductions, L'Oreal may become China's leading cosmetics player over the next few years.

The company maintains worldwide pricing for its products, so profit margins in emerging economies are comparable to those produced in developed ones. A sustainable, competitive advantage is the company's ability to cover all price points with a range of brands. L'Oreal can establish a presence in an emerging economy by introducing lower price point brands without damaging the later introduction of its higher priced premium brands.

We believe L'Oreal can continue to grow its revenues despite its exposure to mature European and North American markets due to growth potential in emerging markets. Profit margins are likely to be constrained by competitive pressures as well as possible inflationary cost increases in the developed economies. This should be offset by cost efficiency measures in marketing and supply sourcing as L'Oreal consolidates the operational aspects of its disparate business entities. We believe L'Oreal will be able to maintain long-term operating profit margins in the middle teens and earn a long-term rate of return of over 7%.

Microsoft Corp. { MSFT }

Microsoft is the world's largest developer of software products and services. The company's products include Windows operating systems for personal computers, servers, phones, server applications, Office business solution applications, video games and its online search offering, Bing. Microsoft is an early provider of cloud based solutions that provides customers with software, services and content over the Internet. In addition Microsoft designs and sells hardware, including the Xbox 360 entertainment and gaming console and assorted PC hardware products.

Microsoft has a new CEO, Satya Nadella, the third CEO in the company's history. He was previously the head of the profitable and growing Cloud Technologies and Enterprise group. During his tenure in this division, he pruned overhead, merged work groups to increase innovation and productivity and focused on customer driven products.

Microsoft is moving from a transaction model to a subscription model, extending the lives of these businesses, expanding the market and setting the stage for a stronger recurring revenue structure.

In the past, Microsoft's legacy products, such as Windows and Office, gave the company high profit margins and cash flow to reinvest in non-core businesses. The migration of consumers away from the PC to mobile devices and the development of open source software applications threaten to erode the dominance of Microsoft's core operating system and Windows applications. Google has established itself as the leading online search player and has used its position to branch out into direct competition with Microsoft with its Chrome Internet browser and operating system software. On the mobile operating system front, Apple's iPhone operating system and Google's Android platform have become the market leaders.

To its credit, Microsoft continues to innovate, especially in its core businesses. The real question is how durable are its major franchises, Windows and Office. Both have varying degrees of durability although the PC-based Windows is the most vulnerable due to the rise in mobile devices. Office appears to have the greatest longevity and even some growth potential, by mixing local and cloud applications. The new Office application, Office 365, is available as a subscription model, perfectly suited for a cloud future. Cloud-based Office 365 can reduce piracy, a significant opportunity. It is estimated that Microsoft receives only a fraction of the

revenues it is due in China as a result of piracy. With Office 365 distributed on the cloud, subscriptions can renew automatically each year and updates to software can be automatic as well. Every time a user opens the program, he or she will be running the latest version and will be billed accordingly. Documents will be saved to Microsoft's cloud storage system by default, so documents and personal settings are remotely accessible.

Some of Microsoft's investments outside of its core competencies have represented a misallocation of capital. Microsoft must continue to innovate as its core businesses mature. Much of Microsoft's investments (Bing, Xbox, Zune) have been outside of the company's core and, though we don't doubt the company's ability to invest its way to a viable business, the amount of capital committed in these efforts makes a compensatory return more challenging.

For legacy businesses such as Windows and Office, the company is moving from a transaction model to a subscription model, extending the lives of these businesses, expanding the market and setting the stage for a stronger recurring revenue structure. Updates and software fixes will be easier and there will be a higher capture of revenue as leakage from piracy improves. We anticipate that Microsoft will continue to develop and acquire a wide range of technologies and products, some of which will be outside of its core, and will experience relatively lower long-term returns on capital. Our valuation model indicates that at its present stock price, Microsoft offers a long-term average annual rate of return of approximately 9%.

Sysco Corporation { SYY }

Founded in 1969, Houston-based Sysco is the largest food service marketing and distribution company in North America. Sysco's major customers include independent restaurants as well as schools, colleges, hotels, hospitals and other food service outlets. The company distributes more than 400,000 products, including approximately 40,000 Sysco-branded items. Sysco holds about a 17.5% market share (twice its largest competitor) of the $200 billion plus food service market in the U.S. and Canada.

Each year Sysco ships 21.5 million tons of produce, meats, prepared meals and other food related products to over 400,000 customers. No single customer of Sysco makes up more than 10% of revenues. To efficiently supply such a large customer base requires a complex web of software, databases, scanning systems and robotics. Sysco has software that calculates how much each pallet can accommodate and how it should be arranged based on the weight of its items, its location and its destination. Sysco targets full service independent restaurant operators, and the company has nearly a 30% market share among this group. Sysco focuses on independent restaurants due to a relatively high degree of pricing power versus chains, which can bargain for greater discounts. Historically, Sysco has been able to pass along inflation adjustments without significant delays.

Key drivers in the industry include prompt and accurate delivery of orders, competitive pricing, close contact with customers and the ability to provide a full array of products and services to

assist clients in their food service operations. Profit margins in the industry are tight and largely depend on high volume. The industry is fragmented with over 3,000 domestic food distributors in addition to more than 15,000 specialty distributors.

Sysco has the largest marketing and sales organization within the food service industry (a key differentiator). Sysco specializes in assessing business operations and providing its customers with a range of ancillary services such as menu planning advice, food safety training, inventory control, product usage and labor scheduling reports. These services are appreciated by operators who typically lack the resources or sophistication to replicate them. In addition, they establish a level of trust and dependence and give Sysco valuable information relating to extensions of customer credit and accounts receivable management.

Sysco has the largest marketing and sales organization within the food service industry (a key differentiator).

In a transaction announced December 2013, the company is planning to acquire US Foods for $3.5 billion. The deal would combine the country's two largest food distributors into a giant distributor with $65 billion in annual revenue. It would be 5 times as large as the next competitor. Sysco sees no structural impediment to US Food's margin (1.4%) reaching SYY levels (4.0%) over time. Improved economies of scale and cost reduction will be key to margin gains.

The Federal Trade Commission (FTC) has been investigating the merger for several months. The FTC is weighing several alternatives, which range from filing a lawsuit to block the merger to requiring the merged entity to divest assets to competitors. Regulators are concerned that combining the nation's two biggest food suppliers could significantly reduce competition. At this point, given the regulatory uncertainties, we have not incorporated any revenue or margin assumptions related to the proposed acquisition to US Foods.

As acquisition opportunities become harder and growth has slowed, a new area of focus has been supply chain efficiencies. Growing largely through acquisitions, Sysco retained a decentralized, entrepreneurial culture that gave wide autonomy to the individual distribution centers. Sysco's Business Transformation Project represents a multi-year commitment to standardize operating systems among the company's distribution centers. The project is intended to consolidate procurement, increase sales productivity, improve customer service and streamline the order fulfillment process. Delays and additional costs have plagued the implementation although recent conversions to the new system have gone more smoothly. When fully implemented, the cost savings provided by this system should enable Sysco to pursue larger, national accounts and improve profit margins.

Assuming a successful implementation of the new operating system, we believe the company should be better able to expand its industry leadership position by exploiting its scale and cost advantages over its competitors. Sysco can fund and implement large efficiency projects that competitors cannot match. We estimate that Sysco will be able to grow revenues long-term at a low, single digit rate versus an industry growth rate that is flat to marginally positive.
The company should be able to produce operating margins averaging in the mid-single digits, with those margins trending higher over time after the implementation of its new operating

system. Using these assumptions, our stock valuation model indicates Sysco's current stock price offers a long-term annual average rate of return at just above 10%.

Becton, Dickinson and Company { BDX }

Becton is one of the leading medical device companies supplying a diversified mix of basic and sophisticated products throughout the world. Almost half of Becton's sales are in what are called "sharps," which consists of safety needles, hypodermic needles, syringes, pen needles, catheters and related equipment, while the remainder is in diagnostic and research instruments. Over 60% of sales are in foreign markets.

The company maintains the largest market share of sharps worldwide based on the quality of its products, innovation, world-wide service capability and lower cost. Becton has innovated in sharps for 100 years and continues to push the technology forward. The last major innovation has been in the field of safety devices, which reduces the potential for healthcare worker needle accidents. These products are now required in most U.S. hospitals and have fully penetrated the U.S. market. However, expansion opportunities remain in foreign markets due to slower adoption of safety guidelines in Europe and the need to minimize the spread of infectious diseases in developing countries. We expect this business will continue to generate strong free cash flow, which management has historically deployed wisely.

Diagnostics are the most likely growth drivers for Becton. The growth in infectious diseases will drive demand for rapid diagnosis and guided therapy.

Becton's market position and global manufacturing and distribution network provides good economies of scale in a capital intensive business. Manufacturing billions of high quality needles at a low cost is a highly technical and complex endeavor. The essential and recurring nature of Becton's medical products, which account for over half of its total sales, has allowed the company some relative stability in revenues despite the much tougher medical technology spending environment.

Becton's other businesses are more technology-oriented and also have large market shares. The primary products are diagnostic testing instruments for disease detection and cellular analysis instruments for pharmaceutical and biotech research. Both product categories have related equipment and supplies businesses that are sizeable in their own right. Historically, Becton has vigorously innovated or acquired new technologies in these businesses, which is essential to maintaining its competitive position. Diagnostics are the most likely growth drivers for Becton. The growth in infectious diseases will boost demand for rapid diagnosis and guided therapy. Cost pressures and lab technician shortages are pushing the need for automation, while increased access to healthcare in emerging markets is compounding the call for both automation and disease screening. Becton is in the forefront of these trends with many instruments and tests in the marketplace, along with a strong research and acquisition program in place.

Becton faces a number of challenges, including the weak economic environment, which has led to fewer patient visits to hospitals and reduced medical research budgets. Further, hospital buying groups are consolidating to increase their purchasing power with suppliers. Longer term, the major risk to Becton is the commoditization of sharps, which Becton continues to combat through innovation, such as safety-engineered devices and ultra-thin pen needles. In addition, Becton faces growing competition from medical product manufacturers with sizeable research budgets, particularly in fast-growing segments. In healthcare there is always the risk that competitors create more innovative products that disrupt the industry by replacing existing products.

The new U.S. healthcare law will impact Becton. The company will be subject to the new medical device tax. The 2.3% tax on medical device sales will be manageable for Becton and should be offset by various cost take-out measures. Becton likely will experience pricing pressure from healthcare providers in their efforts to contain costs. At the same time, we believe additional insured individuals will boost unit growth. Healthcare reform will not impact Becton's foreign businesses, most of which already operate under nationalized healthcare systems.

We feel confident assuming higher growth in Becton's more innovative businesses, such as diagnostics, and more modest growth in its maturing needle business. The population of the world is growing and in major industrialized nations it is aging, which implies medical equipment will be in strong demand. Based on these assumptions, our stock valuation model indicates Becton's current stock price offers a long-term average annual rate of return of approximately 8.5%.

SGS { SGSOF }

SGS is the world's leading testing, inspection, and certification company. The company creates value for a wide range of entities by monitoring and improving their productivity, quality, safety, efficiency and risk management. The Swiss-based company has more than 70,000 employees and operates a network of more than 1,400 offices and laboratories around the world.

SGS has a very diverse portfolio of businesses, both in terms of end-markets and geographies. The three main lines of business include testing, inspection and certification (TIC) services. These services are applied across a number of industry sectors, including agriculture, minerals, construction, oil/gas/chemicals, automotive and food, to name a few. The TIC industry is diverse, encompassing activities as disparate as certifying a product's adherence to government standards, operating testing or inspection systems for corporations, testing products for safety and reliability and inspecting products to make sure they meet performance standards. The overall unifying concept of this business is that there is the need for testing, inspection, or certification of some product, service or system by engineering experts that have a reputation of reliability and trustworthiness.

SGS' revenue patterns tend to be relatively stable since a big portion is generated from recurring contracts. Customer retention is high, as it can be expensive and time consuming to

switch from one TIC company to another. Furthermore, many TIC services are highly specialized and can only be delivered by a limited number of certification companies, such as SGS. Another barrier to entry is global scale, as size is a key advantage to capture the largest and most complex contracts. Clients often seek TIC providers with appropriate financial strength and ability to mobilize large teams to perform short duration projects.

The company's global competition is limited primarily to two companies, Bureau Veritas and U.K.-based Intertek. The testing market is fragmented; the top 10 companies account for about half the outsourced TIC functions, with the remainder being a very long tail of small companies. In many cases, companies and governments continue to perform TIC functions in-house, even though their costs are higher than outsourcing the activity. This industry structure provides SGS with the opportunity for sales growth through increased market share and bolt-on acquisitions.

SGS' revenue patterns tend to be relatively stable since a big portion is generated from recurring contracts. Customer retention is high, as it can be expensive and time consuming to switch from one testing company to another.

SGS, with its mid-teens market share, is the leading company in an attractive industry. The TIC industry is a beneficiary of a number of global trends, including increased regulation, environmental and safety concerns and outsourcing. Standards have been applied with growing intensity as more products are being manufactured overseas, which creates a need to trace product origin and maintain quality. Increasing concerns around the environment, safety, quality and performance in all consumer products and foods also are likely to drive increased product testing.

We believe organic growth and market share gains should allow SGS to grow its revenues at approximately 5% annually over the next decade. In addition, through cost efficiencies and adequate pricing, operating margins should average just over 17%. Further taking into account SGS' pristine balance sheet, our model indicates the company's stock offers an average long-term annualized rate of return of 8%.

Dated: September 30, 2014

Specific securities were included for illustrative purposes based upon a summary of our review during the most recent quarter. Individual portfolios will vary in their holdings over time in relation to others. Information on other individual holdings is available upon request. The information contained herein has been obtained from sources believed to be reliable but cannot be guaranteed for accuracy. The opinions expressed are subject to change from time to time and do not constitute a recommendation to purchase or sell any security nor to engage in any particular investment strategy. Any projections are hypothetical in nature, do not reflect actual investment results and are not a guarantee of future results and are based upon certain assumptions subject to change as well as market conditions. Actual results may also vary to a material degree due to external factors beyond the scope and control of the projections and assumptions.